New Jersey Division of Pensions and Benefits

Open Enrollment News

Tax$ave 2003

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Enroll in Tax$ave and keep more of what you earn

The New Jersey State Employees Tax Savings Program (Tax$ave) saves State employees tax money.

Tax$ave allows eligible employees to set aside, through payroll deductions, before-tax dollars that will be used to pay for qualified medical, dental, and dependent care expenses.

Tax$ave — a benefit program defined by Section 125 of the federal Internal Revenue Code — consists of three separate components: the *Premium Option Plan* (POP), and two Flexible Spending Accounts — the *Unreimbursed Medical Spending Account* and the *Dependent Care Spending Account*. An eligible employee may choose to participate in any or all of these plans. An eligible employee is any employee of the State, a state college, state university, or other state agency who is eligible to participate in the State Health Benefits Program (SHBP).

The Premium Option Plan (POP) is administered by the State and allows you to pay any of your SHBP medical and/or dental premiums with before-tax dollars. For State employees paying toward their medical benefits through premium sharing, the tax saving advantages of the POP are more valuable than ever!

Enrollment in the POP is automatic if you are making a premium contribution for dental and/or medical coverage. The result is that you will pay less in federal taxes.

If you choose not to take advantage of the tax savings available under the POP, you must obtain a *Declination of POP* form from your benefits administrator. For details on the POP see the *Premium Option Plan 2003* pamphlet that you received with your paycheck.

Flexible Spending Accounts (FSA) provide two more innovative ways for you to save tax dollars. Horizon Healthcare Insurance Agency, Inc. administers both plans.

1) The Unreimbursed Medical Spending Account allows you to save taxes on out-of-pocket medical and dental expenses. Basically, any medical or dental expense that would be deductible on your income tax is reimbursable under this FSA. IRS Publication 502, *Medical and Dental Expenses*, provides a complete list of the services eligible for reimbursement.

2) The Dependent Care Spending Account allows you to set aside up to $5,000 of your before-tax salary each calendar year to pay for qualified dependent care expenses. IRS Publication 503, *Child and Dependent Care Expenses*, provides a complete list of the services available for reimbursement. (Also see page 2 of this newsletter for recent IRS changes to child and dependent care tax credits.)

For further information on Tax$ave's Flexible Spending Accounts, see the Tax$ave pamphlet, *Savings You Can Bank On*, that you received with your paycheck, or visit Horizon Healthcare's Web site for information, forms, and interactive calculation tools. Horizon Healthcare can be reached through the Division of Pensions and Benefits' Tax$ave page at: *www.state.nj.us/treasury/pensions/taxsave.htm*

NEW! Direct deposit of Flexible Spending Account payments

Horizon Healthcare now offers direct deposit of reimbursement payments from your Unreimbursed Medical Spending Account and Dependent Care Spending Account.

Call Horizon Healthcare at 1-800-224-4426 for more information or to obtain a direct deposit application form.

Tax$ave Open Enrollment

The Tax$ave 2003 Open Enrollment period begins on **September 13** and ends on **October 31, 2002.** Tax$ave Open Enrollment is your opportunity to save tax dollars in the 2003 tax year with the **POP** and the **Flexible Spending Accounts.**

Enrollment in the POP component of Tax$ave is automatic every year. *The Flexible Spending Accounts require active enrollment each year.* There are a variety of easy ways to enroll.

- ✓ You may enroll over the phone by calling Horizon Healthcare's automated voice response system at 1-800-224-4426 (September 13 — October 31, 2002); or
- ✓ You may enroll over the Internet during the same time period. Go to the Tax$ave page at: *www.state.nj.us/treasury/pensions/taxsave.htm* and follow the link to the Horizon Healthcare website; or
- ✓ You can enroll by obtaining an enrollment kit with the necessary FSA election forms from your benefits administrator. These forms must be postmarked by October 31, 2002, in order to enroll for the 2003 plan year.

Child and Dependent Care Tax Credit Increases for 2003

Changes to federal tax laws, effective January 1, 2003, have increased the Child and Dependent Care Tax Credit that you may claim on your federal income tax return for employment-related child or dependent care expenses. The maximum credit for those with adjusted gross income above $43,000 will increase from $480 to $600 for one child and from $960 to $1,200 for more than one child.

Even with the increase in the tax credit, the **Dependent Care Spending Account** is generally more advantageous from a tax perspective than taking the tax credit. For example, a married couple with a combined adjusted gross income of $80,000 that incurs $5,000 in dependent care expenses could save up to $1,732 in federal income and Social Security taxes by participating in the Dependent Care Spending Account (vs. $600 for one dependent child or $1,200 for two or more dependent children from the tax credit). In this example, the flexible spending account is clearly more advantageous.

Since every person's situation is different, it is important to compare the tax savings from participation in the Dependent Care Spending Account to the tax credit in order to maximize your savings. Horizon offers a Flexible Spending Account vs. Federal Tax Credit Calculator on their Web site to help you assess your potential savings benefit under each option.

FSAs have minimal impact on Social Security

Since payments to the **Flexible Spending Accounts** and benefits premium payments under **POP** are not subject to Social Security deductions, some members have opted not to participate in Tax$ave because it would reduce their Social Security benefit. This may not be a good financial decision.

Take for example, an employee who retired in 1998 at age 65 and whose wages had been at the maximum wages subject to Social Security deductions. Upon retirement, this individual's monthly Social Security allowance was $1,343.

If the same person had been contributing $2,000 a year to a Flexible Spending Account for the last 10 years of employment, the tax savings would amount to $460 – $900 per year (depending on the person's tax bracket).

By contrast, the subsequent reduction in Social Security wages would have produced a monthly Social Security allowance of $1,335, a difference of $8 per month ($96 per year).

Compare the two, and you can decide for yourself if this is reason enough to choose against saving on taxes now!

Rule Change for Orthodontic Care and Medical Spending Accounts

Orthodontic care can sometimes require years of treatment. While these services are eligible for reimbursement from your **Unreimbursed Medical Spending Account,** IRS rules generally require that claims filed for orthodontia (or other long term services) be for treatment occurring within the tax year for which you are filing.

Previously, if you paid your orthodontist in a lump-sum payment, in advance of ongoing treatment, the Tax$ave Unreimbursed Medical Spending Account required that your orthodontist provide you with pro-rated bills reflecting the medical services received in each tax year. Likewise, you would then be reimbursed in installments.

Now, the Tax$ave program permits you to be reimbursed in a single installment if you pay your orthodontist in a single lump sum at the outset of treatment. Your orthodontist no longer is required to pro-rate your bills after such a lump-sum payment. Payments to your orthodontist that are made over time continue to be reimbursed in installments.

Pennsylvania State non-taxability

If you live in Pennsylvania, contributions to your **Unreimbursed Medical Spending Account*** are exempt from Pennsylvania state income tax. This means that you save money on both your federal **and** Pennsylvania state taxes. It's one more reason for Pennsylvania residents to sign up for an Unreimbursed Medical Spending Account during the Tax$ave Open Enrollment.

**Dependent Care Spending Accounts are subject to Pennsylvania state income tax but remain exempt from federal tax.*

NJ Division of Pensions and Benefits

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Access Tax$ave forms and interactive calculation tools by visiting Horizon through a link at: *www.state.nj.us/treasury/pensions/taxsave.htm*